The Limitations of the World Bank's Conception of the State and the Implications for Institutional Development Strategies

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IDS Bulletin Vol 29 No 2 1998

1 Introduction

Compared with the 1980s, the World Bank has now adopted a more comprehensive conception of the state. However, its conception, as presented in the 1997 World Development Report, remains limited and biased in some important respects. This article reflects on the conception of the state in WDR97; its limitations; and their implications for the recommendations of the Report about strategies for institutional development. The article criticises the Report for not taking sufficiently into account the varying forms of societal embeddedness of states and for looking at the role of states from a too narrow perspective of economic effectiveness and efficiency.

This article takes into account the mandate of the World Bank, that stipulates that only economic considerations shall guide its decisions on lending.[1] However, in its analytical work the Bank has for many years taken a broader view – not to the extent of taking a firm stand on the appropriate form of regime or similar political matters, but at least to the extent of expressing views on the appropriate role of the state and on the nature of the institutions that promote or obstruct development. A line is drawn, therefore, between criticism of the Report within this interpretation of the mandate and criticism that goes beyond it to incorporate considerations on how to promote democratic development in recipient countries. The latter perspective is deemed relevant for many bilateral donors. It is included here to highlight an important area where the Report has little to offer, but where bilateral donors have already prepared or may wish to elaborate their own strategies for institutional development.

In the course of the discussion I present sweeping statements – essentially at the same level of aggregation and abstraction as those presented in the Report. The theoretical foundation for these statements has not been included here. I take the liberty of referring the interested reader to my review and

[1] Article IV, section 10 of the World Bank's Articles states: 'The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the members concerned. Only economic considerations shall be relevant to their decisions . . .'

examination of development theories in a recently published book.[2]

It should be noted from the outset that the article presents critical views on the Report mainly based on knowledge about South Asia and some countries in South East Asia and East Africa.

2 The Contemporary World Bank Conception of the State

The 1997 Report represents a second phase in the rethinking of the state within the World Bank, but it does not contain any review of the previous phase nor any discussion of reasons for changing the basic approach and conception of the state. There is no reflective self-criticism. A review of the history of Bank thinking is beyond the scope of this article, but a few points should be highlighted.

During the first phase, i.e. from around 1980 to 1990–91, the emphasis was on questioning the relevance and effectiveness of the state for the advancement of economic development. The Bank essentially promoted the neoclassical strategy with its emphasis on minimising the state's economic role and reducing the size of the public sector through privatisation of public undertakings and relinquishing as many economic tasks as possible to private companies.

Among Keynesian development economists, this was perceived as a counter-revolution against the previously dominant state-managed development model – a counter-revolution these economists were ill-prepared to face in theoretical debates (Toye 1987). It was only towards the end of the 1980s that the neoclassical counter-revolution was gradually forced onto the defensive, both in the theoretical debates and within the World Bank. The counter-revolution came increasingly to be perceived as a reaction that had gone too far in its criticism of the state-managed development model (Killick 1989). Instead, a more balanced approach emerged between the state-managed and the market-led model – a compromise which came to set the agenda for the international debate and development efforts of the 1990s.

It is interesting to note how the World Bank commenced the 1980s with an almost uncritical promotion of the neoclassical propositions regarding the rolling back the boundaries of the state, but ended the decade with an emphasis of the need for capacity building within core state agencies and the public sector in general. This was followed by a nuanced discussion about the best and most feasible distribution of labour between state and market, first in the 1991 World Development Report and two years later in the report entitled 'The East Asian miracle' (World Bank 1993). WDR97 takes this second phase in the rethinking of the state several steps further by discussing how to improve the effectiveness of the state, based on the explicit notion that the state has an important role to play. The Report contains no simple propositions about minimising the state. Instead, the focus is on matching the role of the state with its capability in the short term and building capacity in the longer term to make the state capable of performing all the necessary functions assigned to it in the Report. Markets and governments are now seen as complementary. The whole approach in a sense is both market-friendly and state-friendly.

The underlying conception of the state may not be fully coherent and consistent. There is a tendency in most of the Report to treat the state as a rational actor, guided only by the common interests of all its citizens. Most of the recommendations concerning capacity building and reinvigorating institutional capabilities are narrowly focused on how to improve economic effectiveness and efficiency, based on the critical assumption that the state is primarily a rational actor. But in other parts – especially when discussing obstacles to the implementation of reform – the state is regarded as both an actor and an institutional framework for resolving conflicts of interest. As an actor in this context, the state is seen as functioning in accordance with the most powerful groups, possibly reflecting a compromise between their vital interests and those of other groups of society. It follows from this second conception that the crucial question is not merely to work out the 'best' policies but rather to work out the 'best possible' policies within the framework of the existing power structure.

[2] John Martinussen, 1997, **Society, State and Market. A Guide to Competing Theories of Development,** London and New York: Zed Books.

There is need for further rethinking of the state along these lines in order for the Bank to arrive at more realistic institutional development strategies adapted to the varying conditions in recipient countries. This and other limitations in the Bank's conception of the state, as presented in the Report, are discussed in the following paragraphs.

3 Limitations in the Bank's Conception of the State

The analyses of the state remain constrained by a narrow economic perspective which prevents the Bank from really understanding the 'popularity' of the state-managed development model – the reasons for its emergence and continued existence in many developing countries. The attempts at explaining this 'popularity' in the Report simply refer to 'strong beliefs in state-dominated economic development' and 'economic nationalism' (p.23). To these observations should be added, however, some fundamental non-economic reasons for the adoption of the state-managed model right after independence in most African and several Asian countries.

The political leaders in most of the newly independent societies had little choice if they wanted to stay in power. Markets were undeveloped and the political elites had no power over them. They were in no position to govern the markets along similar lines as in the high-performing East Asian economies. Instead, in order to maintain power, they were forced to enter into a close alliance with the civil bureaucracy and the military. Through this alliance the political leaders as personal rulers achieved control over significant public resources which they could use to build political support. This system of political patronage continues to dominate in a large number of poor countries. Its important role as foundation for political power, even in societies with formal democratic procedures, is a major reason for the continued 'popularity' of the state-governed model among rulers (Jackson & Rosberg 1982; Sandbrook 1985; Bates 1988).

These and other non-economic explanations are important, because they reveal critical aspects of the wider institutional setting in which government bureaucracies operate, and at the same time they identify significant obstacles to the kind of reform initiatives proposed in WDR97. It is interesting to note that the practices of personal rule and political patronage prevail in societies with weak predatory states whose capacity to promote economic development is extremely limited (Evans 1989). From the perspective of economic effectiveness, these states are in particular need of reform, but they are also the least likely to undergo any kind of political or administrative reform. Contrary to developmental states, weak predatory states are not constituted chiefly with a view to promote economic growth and socially shared development. Rather, their major function is to provide a foundation for the exercise of political power. Internal and external security considerations are important even in industrially more advanced countries such as India, Pakistan and Indonesia. This needs to be taken into account when considering the political feasibility of economic reform and strategies for their implementation.

In more general terms, aspects of **societal embeddedness** – such as those referred to above – must be taken much more into consideration than is done in the Report in order to understand what shapes the behaviour of governments and why they behave so differently. WDR97 contains a few references to culture, history, informal rules and norms (e.g. in Figure 2.1, p.30), but such non-economic issues are not brought into the analyses and recommendations on institutional development strategies. It is further recognised in general terms that 'state institutions have deep roots in society' (p.157), but again this recognition is not systematically reflected in the strategies proposed.

Another set of limitations in the Report's conception of the state relates to its **role in societal development**. The focus here is mostly on effectiveness and efficiency in relation to economic growth, with particular emphasis on the role of the state in the provision of public and collective goods and services. There are additional references to the role of the state in areas like protecting vulnerable people and the environment, but such tasks have not been systematically integrated into the institutional development strategies. Moreover, the Report has left out essentially all non-economic tasks, including national integration (nation building), social cohesion (briefly referred to only once, p.89), and political stability. This is somewhat surprising even from the narrow economic perspective adopted in the Report, because it is repeatedly argued that political stability and 'credibility' are very important for private investment. I would go a step further and propose that the 'sustainable, shared, poverty-reducing development' aimed at in the Report (p.4) is impossible to achieve without a certain amount of national integration, social cohesion, and political stability and governability. All this cannot be subsumed simply under the heading of 'establishing a foundation of law'.

4 Implications for Institutional Development Strategies

The guiding principles in WDR97 of matching the state's role to its capability in the short term and raising state capability by reinvigorating public institutions in the longer term may appear captivating, but they also call for at least two critical remarks.

First, many states in developing countries are so weak that reducing their tasks to what they can presently do effectively would imply dismantling them as states. It would imply pursuing the previously recommended strategy of minimising the state. The attention drawn in the Report to resource utilisation and better management of public resources is a commendable supplement to the focus on resource allocation prevailing in much economic theory, but to take the resources presently available to the state as given is to go too far in that direction. An alternative strategy, therefore, would give first priority to strengthening the state's resource base and resource mobilisation capabilities and would accept that the state would have to continue doing what it is attempting to do, but to do it more efficiently. Simultaneously, steps should be taken to build the capabilities for more effective and efficient resource utilisation. This does not preclude privatisation and other measures to reduce the size and role of the state. The point is that such measures cannot be justified exclusively with reference to poor performance of existing government institutions, particularly when poor performance is primarily due to lack of resources.

Second, reinvigorating public institutions in many cases would be far from sufficient. The terminology used here seems to imply that states and public institutions in general were previously more capable of performing their roles. A more appropriate formulation would refer to **in**vigorating public institutions and assist in building their capabilities.

One chapter in the Report (Chapter 10) explicitly discusses the different opportunities and challenges facing states in each 'developing region'. Yet, in most of the Report, states are treated as a standardised commodity. As a corollary, essentially the same 'cure' – the same set of strategies for their development – is proposed. This appears in the main text as well as in boxes in the form of general propositions and frequent references to the approaches adopted by the high-performing East Asian economies, and even with references to New Zealand and other OECD countries where New Public Management ideas have been practised.

I very much doubt this is a feasible approach. The **differences** are simply too significant. Consider the differences, for instance, between, on the one hand, the South Korean state with a well-developed coherent bureaucracy, and on the other, many African countries where non-institutionalised government prevails, where persons and social networks take precedence over rules, and where paramount leaders rule more in their personal capacity than in their capacity as office-holders within the formal governmental set-up.

Poor countries with weak states may undoubtedly learn from rich countries with strong states, but not necessarily by trying to become similar in all, or even most, respects. That would depend critically on the extent to which they face the same kind of challenges and the degree to which they can build on similar strengths. Besides, the sequencing of reform initiatives is extremely important. These issues are not really dealt with in the Report. Rather, the same sequencing is proposed in all cases, beginning with the 'matching' exercise which, as indicated above, for several weak states would imply abolishing even some of the core government functions.

In more specific terms, WDR97 is lacking in its proposed strategies particularly for two reasons: the underlying assumptions about the existence of strong private sector partners; and the implied hypothesis that actual practices can be changed by changing formal rules and procedures.

The Report tends to overestimate the strengths and **capabilities of non-state institutions and organisations.** This is reflected in the high confidence in the market which the Report retains from previous World Bank publications. By asking what institutional arrangements best allow markets to flourish (e.g. p.29), attention is drawn to the framework but not to the actors, the consumers and the private sector companies. The faith in the non-state institutions and organisations is even more pronounced in the proposed strategies for contracting out (pp.80, 88f); and regarding the establishment of deliberation councils. It is assumed here that firms exist with a capacity to take over delivery of goods and services, and that firms and associations have been established with capabilities to enter into consultations with the government.

These strategies, however, are only feasible where the private sector has been developed beyond a certain threshold. This is not the case in the large majority of developing countries. The Report contains a good observation on this issue: 'If a country's private sector is small, deliberation councils can all too easily degenerate into well-oiled mechanisms for unproductive rent extraction'.(p.83). This is used to explain why African versions of deliberative councils have generally been ineffective. I agree. But it is more difficult than that. Even in India, with a strong private sector, attempts at building an institutional framework for co-operation between the government and the private sector have so far failed to reach beyond a series of narrowly focused and non-transparent consultations.

Coming to the second point regarding the **emphasis on formal rules and procedures**, the idea of adjusting the incentive structures and thereby change the behaviour of government officials is basically sound – but not sufficient. It puts too much emphasis on formal institutions and procedures within government and largely ignores the fact that personalistic relationships permeate both the government bureaucracies and those of the private companies. In this sense, the same society-generated and very basic social institutions and norms have invaded and captured both the state and the firms and thus effectively influence intra-bureaucracy and intra-firm behaviour, as well as the interactions between bureaucracy and the firms (North 1990). This is less so in some high-performing East Asian economies and may be less so with respect to transnational corporations, but the practice is not confined to Africa. Personalistic relationships tend to dominate in the whole of South Asia (Blomkvist 1988) and even in a high performing economy as such as Indonesia's – irrespective of formal rules.

The narrow focus on formal procedures is found also in the discussion of how to restrain arbitrary state action and corruption. It is very commendable that WDR97 touches on these matters, but the remedies suggested – the introduction of more formal checks and balances – are highly inappropriate. They reflect either insufficient understanding of the more profound reasons for corruption and rent seeking, or unwillingness on the part of the Bank to consider the wider institutional setting within which governments in most developing countries function.

It is correct that corruption – defined in the Report as the abuse of public power for private gain (p. 102) – is facilitated by wide discretionary powers vested in government officials, little formal accountability, and low salary levels (p.103f.). But the root causes should be sought outside the state – in the long-established practices of reciprocal exchange – what some researchers have termed the moral economy, others the economy of affection (Hyden 1983; Hyden & Bratton 1992). The basic feature is the moral obligation to favour and reward one's own family, kin, community or other kinds of social groups. This may imply the abuse of public power and resources, precisely because many government officials in poor countries feel a stronger obligation towards external groups than to the state. The strategies proposed by the Report may contribute to narrowing the scope for such corrupt practices, but it needs to be acknowledged as a much more difficult problem to solve in countries like those in sub-Saharan Africa, South Asia and elsewhere. Again what is needed is a more comprehensive analysis of the societal embeddedness of the behaviour of government officials.

To this should be added that effectiveness and efficiency cannot be treated as **socially neutral**. It may be at the margin of the Bank's mandate, but it has become part of the tradition among donors to expect from the Bank special considerations concerning the poor. These are lacking in most of the

Report. Improving delivery needs to be tackled in a differentiating manner – as seen from the perspective of the rich as well as from the perspective of the poor. And it is evidently more costly for the state to deliver services to the poor, who cannot contribute financially, or only marginally so. This issue is only dealt with sporadically throughout the Report. It is not systematically integrated into the recommendations on institutional development strategies. This is particularly evident in the discussion of external pressure as a means to improve performance (p.86 ff). The outcome in social terms depends very much on the kinds of external pressure, and it is generally the case that the resource-weak segments of the population are in a bad position to exert any major pressure on the state agencies and are even worse off when it comes to exerting pressure against commercial undertakings. Pressure from the poor to get access to water, for instance, is rarely effective. To this could be added that external pressure on agencies responsible for delivery may often imply ethnic or regional biases. In other words, external pressure – although in principle one of the available means to enhance performance – may in practice result in **socially biased delivery**. Again, the underlying assumptions about society as free of conflicts and about citizens as a homogeneous group interfere with the Report's recommendations.

The social biases embodied in institutional arrangements and policies are mentioned in the Report, but they come in late in the analyses – in Chapter 7 – where it is noted that the low income or subordinate position of some groups makes them nearly invisible to public officials (p.117). But this correct observation has not been taken into account systematically in the strategies proposed in the previous chapters. The Report as a whole is weak on this issue.

The Report argues in favour of decentralisation, especially **devolution** in accordance with the subsidiarity principle – that public goods and services should be provided by the lowest level of government that can fully capture the costs and benefits (p. 120f). Consideration is further given to the matching of services with local preferences. Yet, little is said about the possible strategies for strengthening local authorities in general, and even less about the strengthening of local-level democracy as an institutional framework for increasing opportunities for voice and participation – goals that are otherwise given priority in the Report (p. 116). Instead, attention is turned to the pitfalls of decentralisation (p.124ff). Recommendations on how to strengthen democratically elected local authorities may go beyond the Bank's mandate, but the same does not apply to a broader discussion of how to strengthen local authorities from the perspective of improving effectiveness, efficiency, and the matching of service provision with citizen preferences.

I suggest that the Bank engage itself more in the debate on decentralisation with a strong emphasis on devolution. Moreover, I propose that bilateral donors add to this a specific democratisation perspective that justifies devolution, not chiefly from a point of view of effectiveness, but also from the point of view of enhancing citizen participation in decision-making as an end in itself. This perspective on devolution might take the considerations regarding subsidiarity outside the formal governmental set-up and raise the question whether more services should be provided by development-oriented NGOs or other civil-society organisations. Devolution *per se* will not necessarily bring about improvements in service provision and delivery of goods as seen from an efficiency point of view, but when implemented successfully, transfer of power to local authorities can yield substantial benefits, both in terms of encouraging greater participation and improving effectiveness, at least in some areas.[3]

5 An Additional Agenda for Bilateral Donor Agencies

In keeping with the World Bank's mandate, institutional development strategies specifically aimed at promoting democratisation are not considered explicitly in WDR97. The Report confines itself to good governance in a broader sense. However, bilateral donor agencies need not confine themselves in the same way, and many of them have already incorporated into their development objectives some form of democratisation. Most donors

[3] I have dealt more extensively with the issue of decentralisation, devolution and local-level democracy in John Martinussen, 1995, **Democracy, Competition and Choice: Emerging Local Self-Government in Nepal**, New Delhi/Thousand Oaks/London: Sage Publications.

combine demands for democratic reforms with direct assistance to strengthening democratic institutions. In this sense, bilateral donors have added to the issue of good governance also that of 'good politics' by demanding a commitment to democratisation and by providing institutional development support to that effect. They attempt to promote not merely the developmental state but also the democratic developmental state (cf. White 1995).

To promote democratisation requires the introduction of a set of procedures for competition between political parties and politicians; good governance and protection of human rights; devolution; and empowerment of civil-society organisations. Several aspects of the institutional development strategies proposed in WDR97 may be relevant in this context, but bilateral donors need to focus more specifically on interventions in the public sector aimed at strengthening institutions and institutional relationships of particular importance for the proper functioning of democracy as a form of regime. Relevant examples from Danish assistance include: assistance to work out election procedures, to organise polling, and to improve the working of the parliamentary secretariats. These types of capacity development strategies reach beyond effectiveness-enhancing in the narrow economic sense, to improving the institutional framework for popular participation.

Several donor agencies may wish to go even further in their support for democratisation by providing assistance to civil society organisations and citizen associations in general so as to enable them to reach up to the authorities and to do so on a more equal basis. Most official development agencies, however, are in no position to directly empower resource-poor segments of the population. What they can and should do is to encourage the governments in recipient countries to create better institutional arrangements for dialogue between the authorities and the citizens, and thereby bring about more and stronger preconditions for the proper functioning of democracy. The strategies to be adopted for this purpose need to be elaborated in the context of the societies concerned. The approach appropriate for India, for instance, would not be particularly relevant for Indonesia. Or to put it in more general terms, institutional development strategies must address the particular difficulties and challenges faced by individual states. We may identify patterns that allow us to group countries into a smaller number of categories, each with shared fundamental needs for institutional strengthening. But we should avoid repeating the mistakes of neoclassical economists who suggested the same cure, the same general economic development strategy for all, and the same sequencing of reform initiatives. I would argue that a differentiating approach is even more important when it comes to institutional development strategies in support of democratisation.

6 Concluding Remarks

WDR97 has reinstated firmly on the international agenda the role of the state in development – not with notions of the state as the chief engine of growth, but with notions of the state as a set of institutions required to provide a framework for private sector development and the proper functioning of the market. The emphasis in the Report is on how to improve the effectiveness and efficiency of the state in this context. What is required to complement the analyses in the Report is: a better understanding of the variety of ways in which different states are embedded in societies; a broader understanding of the non-economic roles of states; more attention to the social biases embodied in most institutional arrangements; and the need for democratisation, not simply to improve performance in the economic sense, but rather to improve performance in a political sense – to promote participation for all adult citizens, and responsiveness, transparency and accountability on the part of the public authorities.

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